

**Budget**  
**Tuesday, March 16, 2010**  
**5:00 P.M.**  
**Third Floor, City Hall**

Chairman King began the meeting by introducing the members of the committee that were present. A quorum **WAS NOT** established.

1- Shayne Kavanagh, Senior Manager of Research - GFOA

**Discussion:** Jane Driskell, Office of Management & Budget, introduced Shayne Kavanagh, Senior Manager of Research with Government Finance Officers Association (GFOA). Presentation handouts were distributed to members of the committee (attached). They were:

- The following was discussed:

- Key Questions addressed in the core of the Presentation
  - What is the right level of fund balance?
    - What part of fund balance to measure?
      - Traditionally, measure “unreserved” balance
      - Under 54, use “unrestricted” balance
    - How to measure
      - Fund balance as a percent of
        - Regular revenues or
        - Regular expenditures
      - Choice depends upon which is more predictable
    - What goes GFOA recommend
      - As a baseline for the general fund
        - 1 to 2 months of regular operating expenditures or revenues
        - Equates to about 8% to 16% of revenues or expenditures
    - S & P's views on available fund balance
      - Low: below 0%
      - Adequate: 1% to 4%
      - Good: 4% to 8%
      - Strong: 8% to 15%
      - Very Strong: Above 15%
  - What factors influence the “right” level of fund balance?
    - GFOA recommendation just a baseline
    - Need to adjust based on local conditions
    - Conduct an analysis
      - Catalogue major influencing factors

- Analyze past experience on factors
- Judge implications for fund balance
- Factors to Consider
  - Vulnerability to Extreme Events & Public Safety
    - Metro has been in a FEMA disaster area three times in past 12 months
  - Government Size
    - Metro is a mid-to-large sized government
  - Budget Practices
    - Metro operates a balanced budget
  - Own Source Revenue Stability
    - Potential for shortfall in important revenue sources
  - Intergovernmental Revenue
    - Importance and dependability
  - Expenditure Volatility
    - Firefighter Settlement represents two decades worth wage impact
  - Leverage
    - Metro is a 200 year old city with maintenance needs
    - Long-term debt
  - Borrowing Capacity
    - External and internal borrowing capacity
  - Liquidity
    - How much liquidity is usually available
  - Other Reserves
    - Does the General Fund “backstop” other funds
  - Designations
    - Any “Designations” or “Assignments”
  - Growth
    - High growth expected?
  - Capital Projects
    - Do critical projects have a funding source
  - External factors
    - Investor's perceptions
    - Public perceptions
  - *“The Metro Government’s ability to maintain balances with its past levels of about \$65 million in undesignated General Fund balances is a key credit consideration”* Rating from Fitch
- What are the most important elements of a fund balance policy?
  - Fund balance target levels
    - Consider breaking into subcategories
    - Key word: **transparency**
  - How to reach target levels
    - Broad guidance in policy
    - Use a long-term financial plan for more specifics
  - Conditions for use of reserves
    - Use of Reserves
    - Authority to Use Reserves
    - Replenishment of Reserves
    - Excess Reserves
  - Targets
    - Louisville Metro
      - Between one and two months of monthly average current year general fund budgeted expenditures
    - Portland
      - 5% (of revenues) emergency reserve & 5% counter-cyclical reserve
    - Minneapolis

- 15% of the following year's revenue budget amount
- Other Policy Examples
  - Authority to use (Portland)
    - The City Manager makes recommendations to the Finance Committee of the City Council on use
  - Replenishment (Portland)
    - Restore the fund balance in upcoming budget cycles in such amounts as deemed prudent under then-existing economic conditions
  - Excess reserves (Minneapolis)
    - Hold if contingencies warrant, move to other funds if needed, or spend on approved special projects
- How can you develop a strategy for using fund balance for budgetary stabilization?
  - Describe how reserves fit into "bridging" strategy
  - Have a transparent fund balance policy
  - Get skilled at distinguishing between one-time and permanent decreases
    - If it is permanent, how long is the downturn expected to last?
  - Develop a replenishment strategy for after it is used
    - How will it be replenished
    - By when will it be replenished
  - Using Reserves – Key Policy Questions to ask
    - How will fund balance compare to policy standards as a result of the use
      - What vulnerabilities does it leave to other risks
    - How soon can balances be built back up
    - What other mitigation tools might eliminate the need to use fund balances
  - Debt as a mitigation tool
    - Key question is affordability of debt
    - Look at policy standards
      - Per Capita Debt/Per Capita Income
        - Less than or equal to 3%
      - Per Capita Debt/Market Value of Real Property
        - Less than or equal to 3%
      - Debt Service/General Fund Operating Expense
        - Less than or equal to 10%
- What are the implications of GASB Statement No. 54 for fund balance strategy and policy
  - Impact of GASB 54
    - 54 shifts the focus of "fund balance"
    - 5 categories of fund balance
      - Non-spendable fund balance
        - Inherently non-spendable
      - Restricted fund balance
        - Externally enforceable limitations on use
      - Committed fund balance
        - Self-imposed limitations
      - Assigned fund balance
        - Limitation resulting from intended use
      - Unassigned fund balance
        - Residual net resources
  - Not typically relevant to the Policy
    - Use constrained by outside parties
    - Non-spendable fund balance
      - Long-term portion of loans receivable
      - Principle of an endowment
    - Restricted fund balance
      - Externally imposed by creditors, grantors, contributors or laws or regulations of other governments

- Imposed by law through constitutional provisions or enabling legislation
- A policy typically covers
  - “Unrestricted fund balance” which comprises three 54 categorizations
    - Committed fund balance
      - Limitations imposed by government on itself
    - Assigned fund balance
      - Assigned to a particular intended use
    - Unassigned fund balance
      - Anything that doesn’t fall into other categories

General discussion was as follows:

- Metro Government’s written policy is recognized by GFOA as Best Practices
- Appropriate use of General Fund Balance “Rainy Day” Funds
  - Non re-occurring items are key use
- Capital Expenditures
  - Best practice - mixture of Paygo and Debt Financing
- Firefighter Settlement payments
  - If decided, pay portion from General Fund and Finance the remainder, the ratio would drop and possibly impact Bond Rating
    - Being able to build fund source back up
    - Flexibility to address other risk factors
- General Obligation Bonds vs. Judgment Bonds
- Modifying the baseline with risk factors
- Working with Bond Counsel, possibly borrow the funds under a tax-exempt basis to address the Firefighter Settlement

### **Pending Legislation**

2--O-53-03-10 AN ORDINANCE AMENDING ORDINANCE NO. 112 SERIES 2006, ORDINANCE NO. 126, SERIES 2007, AND ORDINANCE NO. 90, SERIES 2009, RELATING TO THE CAPITAL BUDGETS FOR FISCAL YEARS 2006-07, 2007-8, AND 2009-10, RESPECTIVELY, FOR THE LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT BY TRANSFERRING \$20,861.52 OF CAPITAL CUMULATIVE RESERVE FUNDS (CAPITAL INFRASTRUCTURE FUND), TO A NEW CAPITAL PROJECT ENTITLED WESTPORT ROAD TARC IMPROVEMENTS AND \$3,481.16 TO AN INFRASTRUCTURE PROJECT IN DISTRICT 17.

**Status:**-In-Committee

**Committee:**-Budget

**Primary Sponsor:**-Glen Stuckel

This item was **HELD IN COMMITTEE**.

3--O-204-12-09 AN ORDINANCE APPROVING THE SECOND AND THIRD PAYMENTS OF FOURTEEN MILLION THREE HUNDRED THOUSAND (\$14,300,000) DOLLARS PLUS ASSOCIATED EMPLOYER COSTS BY MARCH 31, 2010 AND FOURTEEN MILLION NINE HUNDRED THOUSAND (\$14,900,000) DOLLARS PLUS ASSOCIATED EMPLOYER COSTS BY JULY 15, 2010, SUCH AMOUNTS TO BE FUNDED THROUGH CURRENT RESOURCES INCLUDING BUT NOT LIMITED TO UNRESERVED GENERAL FUND BALANCE, SUCH PAYMENTS ARE PART OF THE A FORTY-FIVE MILLION (\$45,000,000) DOLLAR TENTATIVE SETTLEMENT OF LITIGATION WITH EIGHT HUNDRED THIRTY-FOUR (834) PLAINTIFFS, CURRENT AND FORMER MEMBERS OF THE LOUISVILLE FIRE DEPARTMENT, FOR OVERTIME DUE ON LUMP SUM ALLOWANCES FROM 1985 THROUGH 2008.

**Status:**-In Committee - Held

**Committee:**-Budget

**Primary Sponsor:**-Jon Ackerson

This item **REMAINED HELD IN COMMITTEE.**

Without objection the meeting adjourned at 6:18PM

**\*NOTE: Items sent to the Consent Calendar or Old Business will be heard before the full Council at the Metro Council Meeting on March 25, 2010.**  
**KLP**